

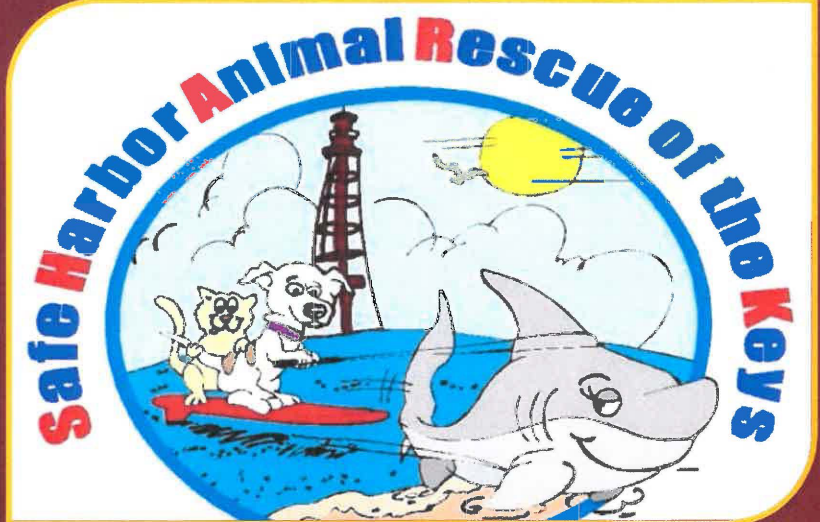
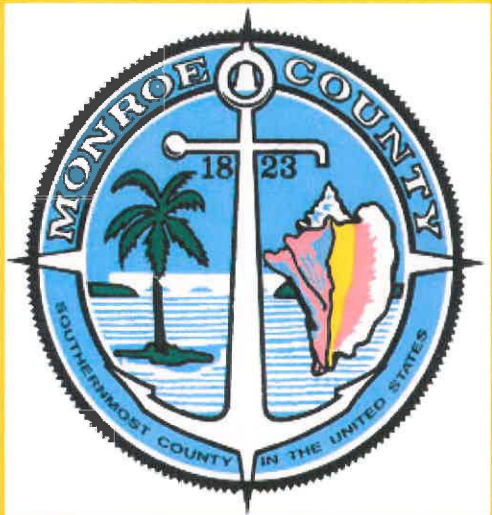


## **DIVISION OF INSPECTOR GENERAL**

**KEN BURKE, CPA**

**CLERK OF THE CIRCUIT COURT AND COMPTROLLER  
PINELLAS COUNTY, FLORIDA**

# **AUDIT OF MONROE COUNTY SAFE HARBOR ANIMAL RESCUE OF THE KEYS CONTRACT**



**An Accredited Office of  
Inspectors General**

**Hector Collazo Jr.  
Inspector General/Chief Audit Executive**

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**APRIL 21, 2016  
REPORT NO. 2016-08**



## Ken Burke, CPA

CLERK OF THE CIRCUIT COURT AND COMPTROLLER  
PINELLAS COUNTY, FLORIDA

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Recorder of Deeds  
Clerk and Accountant of the Board of County Commissioners  
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April 21, 2016

Ms. Amy Heavilin, Clerk of Circuit Court and Comptroller, Monroe County  
Mr. Reuben Iyamu, Director of Internal Audit, Monroe County Clerk of Circuit Court


At your request, we have conducted an audit of the "Monroe County Safe Harbor Animal Rescue of the Keys, Inc." (SHARK) contract. Our audit objectives were to:

1. Identify any fraud committed by SHARK Board Members through manipulation of accounting records. Determine and quantify any financial impact to SHARK and Monroe County.
2. Determine if SHARK is in compliance with regulatory requirements set forth by the Florida Statutes, Internal Revenue Service, and other regulatory bodies as they pertain to nonprofit organizations.
3. Determine if internal controls are adequate for the business processes at SHARK.
4. Determine if the animal shelter run by SHARK is adequately secured and maintained.

While our preliminary analysis of SHARK's financial records did not identify any evidence that fraud was committed by SHARK's Board Members through manipulation of accounting records, we did identify several internal control weaknesses which created the risk of potential misappropriation that would warrant additional audit testing procedures to meet our audit objectives. However, during the process of our preliminary analysis, the Monroe County Board of County Commissioners approved the merger of SHARK with the Florida Keys Society for the Prevention of Cruelty to Animals. As a result, effective November 1, 2015, the SHARK organization no longer has this contract with Monroe County for animal control in the Middle Keys. Therefore, further audit testing procedures (i.e. a full audit) was not warranted as it will not be in the best interest of Monroe County.

We appreciate the cooperation shown by the staff of the Monroe County Clerk of Circuit Court Internal Audit Department and SHARK Board Members during the course of this review.

Respectfully Submitted,



Hector Collazo Jr.  
Inspector General/Chief Audit Executive



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Inspectors General



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# INTRODUCTION

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## *Synopsis*

Based on our preliminary analysis, we did not identify any evidence that SHARK Board Members committed fraud through manipulation of accounting records; however, we did identify internal control weaknesses and poor record keeping/accounting which created the risk of potential misappropriation.

## *Scope and Methodology*

We conducted an audit of the contract between Safe Harbor Animal Rescue of the Keys, Inc. (SHARK) and the Board of County Commissioners of Monroe County. The audit covered an analysis of SHARK's financial records. The audit also planned to cover an evaluation of SHARK's regulatory compliance, evaluation of SHARK's internal controls, and animal shelter facility maintenance. However, due to a change in contractor during the audit, further audit testing procedures (i.e. a full audit) was not warranted as it will not be in the best interest of Monroe County.

The objectives of our audit were to:

1. Identify any fraud committed by SHARK Board Members through manipulation of accounting records. Determine and quantify any financial impact to SHARK and Monroe County.
2. Determine if SHARK is in compliance with regulatory requirements set forth by the Florida Statutes, Internal Revenue Service, and other regulatory bodies as they pertain to nonprofit organizations.
3. Determine if internal controls are adequate for the business processes at SHARK.
4. Determine if the animal shelter run by SHARK is adequately secured and maintained.

In order to meet the objectives of our audit, we:

- Interviewed Monroe County staff and SHARK Board Members/Staff to obtain a clear understanding of the contract, processes, and the related internal control environment.
- Evaluated compliance with the contract terms and verified that contract obligations are being fulfilled.
- Reviewed financial documents and records of SHARK.
- Toured the animal shelter run by SHARK.



Our audit was conducted in accordance with the *International Standards for the Professional Practice of Internal Auditing* and the *Principles and Standards for Offices of Inspector General*, and, accordingly, included such tests of records and other auditing procedures as we considered necessary in the circumstances. The audit period was May 1, 2011 to June 30, 2015. However, transactions and processes reviewed were not limited by the audit period.

## **Overall Conclusion**

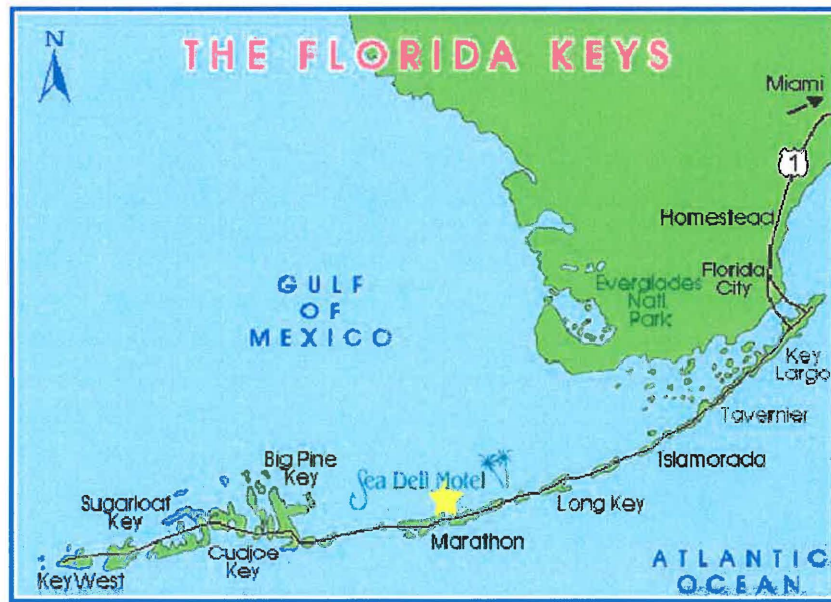
We did not identify any fraud committed by SHARK Board Members through manipulation of accounting records. We performed a preliminary financial analysis of a sample of SHARK transactions, which included reconciling SHARK's accounting records to its bank statement and to its Monroe County Reimbursement Request and subsequent payment. We also analyzed documentation containing allegations against SHARK. There is no indication that improper costs are being charged to Monroe County; however, issues were identified and are discussed in this report.

Identified issues would normally warrant additional audit testing procedures to meet our audit objectives. However, during the process of our preliminary analysis, the Monroe County Board of County Commissioners approved the merger of SHARK with the Florida Keys Society for the Prevention of Cruelty to Animals. As a result, effective November 1, 2015, the SHARK organization no longer has this contract with Monroe County for animal control in the Middle Keys. Therefore, further audit testing procedures (i.e. a full audit) was not warranted as it will not be in the best interest of Monroe County.

## Background



The Board of County Commissioners of Monroe County entered into a contract with Safe Harbor Animal Rescue of the Keys, Inc. (SHARK) to provide animal control law enforcement and services. The scope of services included all staffing, equipment and supplies necessary to operate the Marathon Animal Shelter and provide animal control and enforcement services from Mile Marker 16.7 to 70 (Middle Keys) in Monroe County. The contract was effective May 1, 2011 through June 30, 2015. The contract provided that Monroe County would reimburse SHARK up to \$232,556 per year (with annual Consumer Price Index adjustments) for its services rendered.



SHARK is a no-time-limit, nonprofit animal shelter and a nonprofit organization [Section 501(c)(3) of the Internal Revenue Code] formed in 2010 specifically to help the animal population in the Middle Keys. Their mission is to raise awareness in the community of pet overpopulation, to provide solutions to end the killing of homeless and neglected animals, and ultimately, through innovative ideas and energetic management, make the animal shelter in Marathon one of the most progressive shelters in the state. SHARK operates with six Board Members and several employees. Besides contract reimbursements provided by Monroe County to operate the shelter, SHARK receives funds from animal adoptions, which ranged from \$15 for a senior cat to \$120 for a puppy. SHARK also solicits donations and accepts volunteers.

On August 13, 2015, the Monroe County Board of County Commissioners (Board) received a letter detailing allegations of fraud, waste, and abuse by some members of SHARK's organization. The letter informed the Board that SHARK is no longer able to be the contracted provider of animal services for the Middle Keys.

On September 21, 2015, an agreement between the Monroe County Clerk of Circuit Court and Comptroller (CCC) and the Pinellas County CCC was entered into temporarily assigning Pinellas County CCC Division of Inspector General (PC IG) staff to conduct an audit of the Monroe County contract with SHARK.

On September 23, 2015, PC IG staff made a site visit to the Florida Keys, spending two days meeting with Monroe County and SHARK Board Members/Staff, and collecting applicable financial and operational records. PC IG staff also met with Christian Zuelch, formerly SHARK's President/Accountant, and obtained his electronic accounting files that were downloaded from *QuickBooks* software.

Effective November 1, 2015, the SHARK organization no longer has the contract with Monroe County for animal control in the Middle Keys. The Florida Keys Society for the Prevention of Cruelty to Animals (SPCA) is now the organization operating the Marathon animal shelter. The same staff that worked under SHARK are now working under the Florida Keys SPCA.

A draft report reflecting the results of our preliminary analysis (and our recommendation that additional audit work was not warranted) was provided to the Monroe County Clerk of Court. Based on that recommendation, it was decided to end the audit prior to completion of the stated audit objectives as it will not be in the best interest of the County.



# PRELIMINARY ANALYSIS FINDINGS

Our audit disclosed certain policies, procedures, and practices that could be improved. Our audit was neither designed nor intended to be a detailed study of every relevant system, procedure, or transaction. Accordingly, the Findings presented in this report may not be all-inclusive of areas where improvement may be needed.

## 1. Capital Bank Operating and Donation Accounts.

We analyzed all SHARK transactions for the month of March 2015, including the Reimbursement Request submitted to Monroe County. The analysis included a reconciliation of SHARK's accounting records (per *QuickBooks*) to its Capital Bank Operating Account and Donation Account statements to its Monroe County Reimbursement Request and Monroe County's Reimbursement Statement.

We found:

### Capital Bank Operating Account

	March 2015 Accounting Records	March 2015 Bank Statement	March 2015 Reimbursement Request	March 2015 Reimbursement Statement
Number of Checks/Expenditures	77	72	48 <sup>1</sup>	40 <sup>2</sup>
Total Amount	\$28,241.09	\$22,693.53	\$10,707.68 <sup>1</sup>	\$6,470.09 <sup>2</sup>

<sup>1</sup> These expenditures exclude payroll (which is reimbursed separately by Monroe County) in the amount of \$15,526.85.

<sup>2</sup> These expenditures (excluding payroll) were reimbursed by Monroe County for March 2015.

- Seven checks issued in March 2015 totaling \$5,954.44 did not clear the bank.
- Nine transactions totaling \$4,237.59 that were listed on SHARK's March 2015 Reimbursement Request were not reimbursed by Monroe County due to the following:
  - Two payments not clearing SHARK's bank account (\$3,000.00)
  - Two undocumented expenditures (\$85.35)
  - Two unallowable education/training expenditures (\$773.00)
  - One installment payment fee (\$12.00)
  - Two unallowable travel costs (\$367.24)
- Monroe County over-reimbursed SHARK by \$11.48 due to a credit from Home Depot that was not listed on SHARK's March 2015 Reimbursement Request.

**Preliminary Analysis Findings**  
**Monroe County Safe Harbor Animal Rescue of the Keys Contract**

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- Six transactions totaling \$2,426.66 on SHARK's accounting records for March 2015 were not included on its March 2015 Reimbursement Request submitted to Monroe County.
- Two transactions totaling \$234.19 on SHARK's March 2015 Reimbursement Request were not in its accounting records.

Capital Bank Donation Account

	March 2015 Accounting Records	March 2015 Bank Statement	March 2015 Reimbursement Request	March 2015 Reimbursement Statement
<b>Number of Checks/Expenditures</b>	5 <sup>1</sup>	5 <sup>1</sup>	N/A	N/A
<b>Total Amount</b>	\$1,274.45 <sup>1</sup>	\$1,189.45 <sup>1</sup>	N/A	N/A

<sup>1</sup> These checks exclude two \$5,000.00 transfers to the Operating Account.

- None of the \$1,274.45 expenditures were included on SHARK's March 2015 Reimbursement Request submitted to Monroe County.

**We conclude:**

- A. Checks issued, but not cleared by the bank, could indicate deliberate action by SHARK to hold back the checks or simply could be a timing difference.
- B. Failure to include credits on the Reimbursement Request could indicate fraud (reimbursed for the full transaction amount, but obtaining a credit via return or other method); however, the amount in our sample is immaterial so it is more than likely an oversight.
- C. Failure to include allowable expenses on the Reimbursement Request has no financial impact on Monroe County, but is poor cash management by SHARK.
- D. Submitting expenses for reimbursement that are not in the accounting records could indicate fraud, but due to the immaterial amount, more likely an accounting error.
- E. Submitting disallowable (i.e., private cremations) expenses for reimbursement is a violation of the contract terms, especially considering that SHARK's Treasurer signs a sworn, notarized statement certifying that expenses are accurate, in agreement with SHARK's records, and are in compliance with the contract.



## **SHARK Board Response:**

Our operations budget for the County Contract was approximately \$30,000.00 per year short of the actual expenses. Payment of large veterinary bills and insurance costs were at times dependent on the County's reimbursement funds. Logistics and resulting difficulties of paying for these expenses were disclosed and discussed with our County representative. In cases where a credit was issued on an item that was submitted for reimbursement, this was as result of a change in the volume of a medicine needed or a change to an order that was received. Corrections were made to reimbursements as they occurred. Failure to include expenses were either due to meeting our maximum allowance each month or were due to break-down in communication between staff and Board Members. Again, we acknowledge there were errors found in our records, but we assure you none were intentional.

## **2. Specific SHARK Accounting Record Transactions.**

We analyzed SHARK's accounting record transactions specific to:

- Cora Baggs – SHARK's Treasurer,
- Christian Zuelch – formerly SHARK's President/Accountant,
- SHARK Board Member Loans, and
- Any other large and/or unusual transactions for the time period of April 26, 2011 to September 17, 2015.



We found:

- Per the accounting records, there were 3,256 transactions in the Operating Account, 870 transactions in the Donation Account, and 7,843 General Ledger postings during the time period.
- \$45,000.00 in Board Member Loans were made to SHARK by:
  - Cora Baggs – SHARK's Treasurer
  - Sheila Cook – former SHARK President
  - Pribramsky & Zuelch Inc. – formerly SHARK's Accountant
  - Zuelch & Zuelch LLC – formerly SHARK's Accountant
- SHARK repaid these loans, which were made to SHARK for the purpose of funding operations.
- Donation Account funds were used for operating purposes throughout the audit period, including a \$10,000 repayment to Cora Baggs for her Board Member Loan, mentioned above.
- There was no indication of donation restrictions as to use.
- Five payments to the U.S. Department of the Treasury for payroll taxes in the amount of \$15,535.02 and six payments to the State of Florida for re-employment taxes in the amount of \$5,403.41 were made during the audit period. Payments are not being made timely, which resulted in a Florida Department of Revenue Notice of Intent to Levy dated October 10, 2015 for nonpayment.



**We conclude:**

- A. SHARK accepting Board Member loans to fund operating costs indicates poor cash flow management.
- B. Failure to identify donations as restricted or unrestricted indicates poor recordkeeping/accounting, and poses a legal risk to SHARK for the misuse of restricted donations.
- C. Untimely payment of payroll and re-employment taxes indicates poor recordkeeping/accounting, and can result in levies and assessments for penalties and interest.

**SHARK Board Response:**

Due to the contract being on a reimbursement basis, SHARK was challenged with the lag of time - up to 120 days - between submission and receiving the reimbursement funds. Loans from Board Members were taken to meet our financial obligations to the staff and our vendors. Throughout the 5 year contract period, SHARK had several fundraising campaigns to cover the shortfall between the budget and the contract. Donation funds were needed to sustain operations. The Board of Directors was not clearly advised regarding specific donations referenced in the audit report as 'restricted funds'. In 2013, SHARK did hire an accounting firm to manage accounting, filing, and handling of submissions. At times there was lack of communication from the accountant to the Board on the status of filing of extensions, late payments, and awareness of outstanding debts. Board Members were not made aware of any outstanding late fees or penalties until after the contract assignment was complete.

At the same time the County was conducting this audit, the IRS also conducted an audit of Safe Harbor Animal Rescue of the Keys. Notice was received from the IRS that SHARK does continue to qualify for exemption from federal income tax as a 501(c) (3).

### ***3. Allegations Against SHARK Board Members.***

Documents obtained from SHARK while on our site visit stated a number of allegations which we reviewed.

A summary of the allegations against SHARK's Board Members include:

- Rendering SHARK financially unstable and unable to perform its duties properly;
- Comingling donation and operating funds;
- Submitting unallowable expenses to Monroe County for reimbursement;
- Poor recordkeeping, discretion, and decision-making;
- Lack of segregation of duties;
- Forgery; and
- Late and/or missing filings to regulatory agencies.

**We conclude:**

- A. Most allegations relate to managerial issues, not fraud.
- B. SHARK's deficiencies may be attributed to:
  - Lack of internal controls;
  - Lack of communication between Board Members and employees;
  - Lack of due diligence;
  - Lack of accountability;
  - Lack of oversight; and
  - Non-performance on the part of some of the Board Members.
- C. As previously noted, effective November 1, 2015, the SHARK organization no longer has the contract with Monroe County for animal control in the Middle Keys. Therefore, a full audit of SHARK internal controls and potential investigation of the allegations is not warranted.

**SHARK Board Response:**

The Board Members of SHARK dedicated 5 years to the County contract, the operations of the Shelter, the Staff, and the Animals. The deficiencies noted are acknowledged. The drive and priority of SHARK was always to improve the shelter condition, and improve the services of the shelter and animal control for the community. In the 5 years of management, the shelter was transformed into a much better facility with the help and organization of the Board of Directors, staff, and volunteers. Many major improvements were made that we are very proud of. Many animals made families complete through our care and programs. We acknowledge that there were issues and challenges in our ability to continue to maintain the contract. We are both happy and grateful for the cooperation of Monroe County and the KW SPCA for the successful assignment of the County contract.

**Monroe County Administration's Management Responses**

**County of Monroe**  
**The Florida Keys**



**BOARD OF COUNTY COMMISSIONERS**

Mayor Heather Corrothers, District 3  
Mayor Pro Tem George Neugent, District 2  
Denny L. Kelluga, District 1  
David Rice, District 4  
Sylvia J. Murphy, District 5

Monroe County Board of County Commissioners  
Office of the County Administrator  
The Historic Galt Cigar Factory  
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(305) 292-4441 - Phone  
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April 14, 2016

Reuben Iyamu  
Director of Internal Audit  
Monroe County Clerk of Courts

Dear Reuben,

The County has received and reviewed the draft preliminary audit of Safe Harbor Animal Rescue of the Keys, Inc. (SHARK). We appreciate the Auditors' work and are pleased to see that no reportable issues were identified against the County. The County agrees with the Auditors, that given the contract was assigned to the Florida Keys Society for Prevention of Cruel to Animals, (FKSPCA) effective November 1<sup>st</sup>, that further audit testing of SHARK is not warranted and will not be in the best interest of the Monroe County at this time.

We welcome the opportunity to work with County staff and the Clerk's Internal Audit Department to continue to improve our contract monitoring in order to provide better assurances to the County that the County's contractors have adequate internal controls and are otherwise compliant with the County's contractual provisions.

Thank you

A handwritten signature in blue ink, appearing to read "Roman Gascoi, Jr.", is written over a horizontal line.

Roman Gascoi, Jr.  
County Administrator





# DIVISION OF INSPECTOR GENERAL

KEN BURKE, CPA  
CLERK OF THE CIRCUIT COURT  
& COMPTROLLER  
PINELLAS COUNTY, FLORIDA

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